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SOUTHERN INYO HEALTHCARE DISTRICT

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA
FRESNO DIVISION

In re
SOUTHERN INYO HEALTHCARE
DISTRICT,

Debtor.

Case No. 1:16-bk-10015-FEC
Chapter 9

WGG-4

CHAPTER 9 STATUS REPORT

Status Conference:
Date: July 24, 2019
Time: 1:30 p.m.
Place: Dept. A, Ctrm 11
U.S. Bankruptcy Court
2500 Tulare Street
Fresno, CA 93721

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1 **TO THE HONORABLE FREDRICK E. CLEMENT, UNITED STATE BANKRUPTCY**
2 **JUDGE:**

3 Southern Inyo Healthcare District ("SIHD", the "District" or the "Debtor"), debtor in
4 the above-captioned bankruptcy case (the "Bankruptcy Case"), respectfully submits the
5 following *Chapter 9 Status Report*.¹

6 **I. BACKGROUND CASE**

7 **A. Petition and Schedules**

8 On January 4, 2016, SIHD commenced the instant Bankruptcy Case by filing a
9 voluntary petition for relief (the "Petition") under chapter 9 of title 11 of the United States
10 Code (the "Bankruptcy Code").

11 On or about January 19, 2016, the Debtor filed its schedules and statement of
12 financial affairs. On or about February 5, 2016, the Debtor filed an amended summary of
13 schedules as well as amended versions of Schedule D, Schedule E and Schedule F. On
14 or about February 9, 2016, the Debtor filed an amended version of Schedule G. On or
15 about March 3, 2016, the Debtor filed a second amended version of Schedule G.

16 On or about July 12, 2016, the Court entered an Order for Relief under Chapter 9 in
17 the Bankruptcy Case.

18 **B. New Counsel**

19 On April 10, 2019, the Court issued an Order Granting Motion to Disqualify Ashley
20 McDow and Foley and Lardner LLP [Dkt. 604], which was deemed effective as of the
21 close of business on May 10, 2019. On May 10, 2019, the firm of Weiland Golden
22 Goodrich LLP filed a Motion to Substitute Attorney to be the attorney of record for the
23 District. On May 14, 2019, the Court entered an Order Granting the Motion to Substitute
24 Attorney [Dkt. 617].

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27 ¹ New counsel inadvertently failed to calendar the status conference as a hearing separate and apart
28 from the order to show cause re dismissal and, therefore, did not have the deadline by which to file the
status report calendared. Counsel apologizes for this error.

1 **C. Appointment of Patient Care Ombudsman**

2 On or about January 6, 2016, the Court issued the Order to Appear and Show
3 Cause Why a Patient Care Ombudsman Should Not Be Appointed. On or about
4 January 25, 2016, SIHD filed the Debtor's Motion to Excuse the Appointment of a Patient
5 Care Ombudsman. On or about February 3, 2016, the Debtor filed the Declaration of
6 Colleen Wilson, Chief Nursing Officer, in Support of the Motion to Excuse the Appointment
7 of a Patient Care Ombudsman. A hearing to consider the appointment of a patient care
8 ombudsman was held on February 10, 2016, at 1:30 p.m. On or about February 16, 2016,
9 the Court entered an order denying the Debtor's Motion to Excuse the Appointment of a
10 Patient Care Ombudsman. On or about February 17, 2016, the Court entered an order
11 directing the appointment of a patient care ombudsman. On or about March 4, 2016, the
12 Office of the United States Trustee filed a notice regarding the appointment of Joseph
13 Rodriques as patient care ombudsman (the "Ombudsman").

14 On or about April 8, 2016, the Ombudsman filed the First Report of the Patient
15 Care Ombudsman, which indicated, among other things, that no complaints had been
16 made regarding the services provided by the Debtor. Accordingly, the Ombudsman had
17 no recommendations for the Court.

18 On or about June 7, 2016, the Ombudsman filed the Second Report of the Patient
19 Care Ombudsman, which indicated, among other things, that patients were comfortable
20 and receiving adequate care. Accordingly, the Ombudsman had no recommendations for
21 the Court.

22 On or about August 5, 2016, the Ombudsman filed the Third Report of the Patient
23 Care Ombudsman, which indicated, among other things, that patients were comfortable
24 and presented no complaints regarding the facility or the treatment they were receiving.
25 Accordingly, the Ombudsman had no recommendations for the Court.

26 On or about October 4, 2016, the Ombudsman filed the Fourth Report of the
27 Patient Care Ombudsman, which indicated, among other things, that patients were
28 comfortable and presented no complaints regarding the facility or the treatment they were

1 receiving. Additionally, the Ombudsman did not note any issues with the operations of the
2 facility and, thus, had no recommendations for the Court.

3 On or about December 2, 2016, the Ombudsman filed the Fifth Report of the
4 Patient Care Ombudsman, which indicated, among other things, that the patients were
5 comfortable and that SIHD expeditiously addressed the few minor issues that had arisen.
6 Accordingly, the Ombudsman had no recommendations for the Court.

7 On or about January 31, 2017, the Ombudsman filed the Sixth Report of the
8 Patient Care Ombudsman, which indicated, among other things, that the facility appeared
9 to be clean, patients were comfortable and that SIHD had expeditiously addressed and/or
10 was working to resolve the few minor issues that had arisen. Accordingly, the
11 Ombudsman had no recommendations for the Court.

12 On or about March 28, 2017, the Ombudsman filed the Seventh Report of the
13 Patient Care Ombudsman, which indicated, among other things, that the patients were
14 comfortable and satisfied with the services, the facility staff assisted residents routinely
15 with daily activities, and that SIHD had expeditiously addressed a minor complaint that
16 had arisen. Accordingly, the Ombudsman had no recommendations for the Court.

17 On or about May 19, 2017, the Ombudsman filed the Eighth Report of the Patient
18 Care Ombudsman, which indicated, among other things, that the facility appeared to be
19 clean, patient were comfortable and that SIHD had expeditiously addressed and/or was
20 working to resolve the minor issues that had arisen. Accordingly, the Ombudsman had no
21 recommendations for the Court.

22 On or about July 12, 2017, the Ombudsman filed the Ninth Report of the Patient
23 Care Ombudsman, which indicated, among other things, that the facility appeared to be
24 clean, and patients were comfortable. The report also noted that SIHD had expeditiously
25 addressed the minor issues that had arisen. Accordingly, the Ombudsman had no
26 recommendations for the Court.

27 On or about September 8, 2017, the Ombudsman filed the Tenth Report of the
28 Patient Care Ombudsman, which indicated, among other things, that the facility appeared

1 to be clean, residents appeared clean and were appropriately dressed for the time of year
2 and day, and menus were posted and residents reported being satisfied with their
3 choices. The Ombudsman had no recommendations for the Court.

4 On or about November 3, 2017, the Ombudsman filed the Eleventh Report of the
5 Patient Care Ombudsman, which indicated, among other things, that the local
6 ombudsman program had not received any concerns involving vendors, utilities, or
7 external support factors that might impact resident care. With respect to the one minor
8 complaint that was received during the relevant period, the Ombudsman noted that the
9 resident reported that the matter had been resolved when he met with him. The
10 Ombudsman had no recommendations for the Court.

11 On or about January 2, 2018, the Ombudsman filed the Twelfth Report of the
12 Patient Care Ombudsman, which indicated, among other things, that the local
13 ombudsman program had not received any concerns involving vendors, utilities, or
14 external support factors that might impact resident care and several of the residents had
15 indicated that they were comfortable and had no complaints. The report also noted that
16 the minor issues that had arisen during the relevant period had been addressed.
17 Accordingly, the Ombudsman had no recommendations for the Court.

18 On or about March 2, 2018, the Ombudsman filed the Thirteenth Report of the
19 Patient Care Ombudsman, which indicated, among other things, that the local
20 ombudsman program had not received any concerns involving vendors, utilities, or
21 external support factors that might impact resident care. The facility appeared to be clean,
22 and patients were comfortable. The report also noted that SIHD had addressed the issues
23 that had arisen, and with respect to the one matter that the Ombudsman had reported to
24 the California Department of Public Health ("CDPH"), the CDPH notified the Ombudsman
25 that the allegations were unsubstantiated. Accordingly, the Ombudsman had no
26 recommendations for the Court.

27 On or about May 1, 2018, the Ombudsman filed the Fourteenth Report of the
28 Patient Care Ombudsman, which indicated, among other things, that the local

1 ombudsman program had not received any concerns involving vendors, utilities, or
2 external support factors that might impact resident care, and the Ombudsman noted that
3 the facility appeared to be clean, residents appeared clean and were appropriately
4 dressed for the time of year and day, and menus were posted and residents reported
5 being satisfied with their choices. The report also noted that SIHD had addressed the two
6 issues that had arisen, and that the parent of one of the residents who had lodged a
7 complaint with SIHD advised that she was comfortable with the steps the facility had taken
8 to ensure the safety of her parent.

9 On or about June 29, 2018, the Ombudsman filed the Fifteenth Report of the
10 Patient Care Ombudsman, which indicated, among other things, that the local
11 ombudsman program had not received any concerns involving vendors, utilities, or
12 external support factors that might impact resident care, and the Ombudsman noted that
13 the facility appeared to be clean, residents appeared clean and were appropriately
14 dressed for the time of year and day. The report also noted that SIHD had addressed the
15 one issue that had arisen regarding the posting menu in the facility, and the complaint of a
16 resident regarding personal funds was satisfactorily resolved.

17 On or about August 28, 2018, the Ombudsman filed the Sixteenth Report of the
18 Patient Care Ombudsman, which indicated, among other things, that the local
19 ombudsman program had not received any concerns involving vendors, utilities, or
20 external support factors that might impact resident care, and the Ombudsman noted that
21 the facility appeared to be clean, residents appeared clean and were appropriately
22 dressed for the time of year and day. The report also noted that SIHD had addressed
23 through proper channels the three complaints that had arisen regarding the readmission
24 of a resident, alleged sexual abuse, and the discharge plan of a resident.

25 On or about October 26, 2018, the Ombudsman filed the Seventeenth Report of
26 the Patient Care Ombudsman, which indicated, among other things, that the local
27 ombudsman program had not received any concerns involving vendors, utilities, or
28 external support factors that might impact resident care, and the Ombudsman noted that

1 during six visits during the reporting period, the facility appeared to be clean, residents
2 appeared clean and were appropriately dressed for the time of year and day. The report
3 also noted that SIHD had addressed through proper channels the resident complaint that
4 had arisen regarding sexual abuse.

5 On or about December 21, 2018, the Ombudsman filed the Eighteenth Report of
6 the Patient Care Ombudsman, which indicated, among other things, that the local
7 ombudsman program had not received any concerns involving vendors, utilities, or
8 external support factors that might impact resident care, and the Ombudsman noted that
9 during three visits during the reporting period, the facility appeared to be clean, residents
10 appeared clean and were appropriately dressed for the time of year and day. The report
11 noted a roof leak. The report also noted that SIHD had addressed, through proper
12 channels, one case and one complaint involving a resident's right to refuse treatment.

13 On February 19, 2019, the Ombudsman filed the Nineteenth Report of the Patient
14 Care Ombudsman, which indicated, among other things, that the local ombudsman
15 program had not received any concerns involving vendors, utilities, or external support
16 factors that might impact resident care. The report noted that the District had engaged an
17 architectural firm to repair the previously-noted roof leak. The report also noted that SIHD
18 had addressed, through proper channels, two cases and four complaints involving
19 inattention to a resident, lost or stolen property, staff shortage, and a resident's right to
20 refuse care.

21 On April 19, 2019, the Ombudsman filed the Twentieth Report of the Patient Care
22 Ombudsman, which indicated, among other things, that the local ombudsman program
23 had not received any concerns involving vendors, utilities, or external support factors that
24 might impact resident care. The report noted that the roofing contractor would start work
25 shortly. The Ombudsman noted that during two visits during the reporting period, the
26 facility appeared to be clean, residents appeared clean and comfortable. No complaints
27 were received during the reporting period.
28

On June 17, 2019, the Ombudsman filed the Twenty-First Report of the Patient Care Ombudsman, which indicated, among other things, that the local ombudsman program had not received any concerns involving vendors, utilities, or external support factors that might impact resident care. The report noted that the roof had been fixed and residents had moved back into their rooms. The temperature in the facility was comfortable for residents. Six cases and six complaints were received during the reporting period, including allegations relating to a fall, resident abuse, medication stolen by a third party unrelated to the District, the right to refuse care, and infection control. All matters which required the District to take specific actions were handled and handled appropriately.

D. Adequate Assurance Stipulations and Orders Thereon

SIHD negotiated stipulations regarding the provision of adequate assurances pursuant to 11 U.S.C. §366 with the following utility providers: (a) the Los Angeles Department of Water and Power ("LADWP"); (b) Preferred Septic and Disposal; (c) Eastern Sierra Propane; (d) Thomas Petroleum; (e) California Broadband; (f) ATI Medical Waste Management; (g) the County of Inyo Town and Water Systems; and (h) Bishop Welding. The Court subsequently entered orders approving the foregoing stipulations.

E. Executory Contracts/Unexpired Leases

1. BETA Risk Management Authority

On or about March 17, 2016, SIHD and BETA Risk Management Authority ("BETA") entered into a stipulation to assume certain insurance agreements by and between SIHD and BETA. On or about March 22, 2016, the Court entered an order approving the stipulation between SIHD and BETA and the assumption of the subject agreements.

2. Everbank Commercial Finance, Inc.

SIHD rejected an unexpired lease/executory contract with Everbank Commercial Finance, Inc. ("Everbank") for certain medical equipment (the "Everbank Agreement"). Following the rejection of the Everbank Agreement, SIHD agreed to purchase the

1 equipment subject thereto. On or about March 7, 2017, SIHD filed a motion seeking
2 approval of the settlement and mutual release agreement (the "Settlement Agreement") by
3 and between SIHD and Everbank pursuant to Rule 9019 of Federal Rule of Bankruptcy
4 Procedure, which the Court approved by entry of an order on or about March 22, 2017. In
5 sum, SIHD agreed to pay Everbank the sum of One Hundred Fifty Thousand Dollars
6 (\$150,000.00) in exchange for the withdrawal of proof of claim no. 43-1 filed by Everbank
7 in the Bankruptcy Case (the "Everbank POC"), and a release and/or transfer, as
8 applicable, from Everbank to SIHD of any and all right(s), title and interest in various
9 medical equipment that was the subject of the Everbank Agreement. The Settlement
10 Agreement also provided for mutual and general releases by and between SIHD and
11 Everbank. SIHD has paid the amounts due under the Settlement Agreement, and title to
12 the medical equipment has been transferred to SIHD. In addition, on or about June 14,
13 2017, Everbank withdrew the Everbank POC.

14 **3. Healthcare Conglomerate Associates, LLC**

15 On or about January 2, 2016, SIHD entered into a management agreement with
16 Healthcare Conglomerate Associates, LLC ("HCCA") (the "HCCA Management
17 Agreement"). On or about October 17, 2017, SIHD filed an Emergency Motion (1) For
18 Authority to Immediately Terminate the HCCA Management Agreement Or, In The
19 Alternative, For Authority To Modify The Terms Of The HCCA Management Agreement In
20 Order To Designate The Board As The Sole Signatory On All District Bank Accounts And
21 (2) To Continue Hearing On Second Amended Disclosure Statement And Associated
22 Filing Deadlines (the "HCCA Termination Motion"). On or about October 23, 2017, the
23 Court entered an order granting the HCCA Termination Motion in part (the "HCCA
24 Termination Order"). More specifically, the HCCA Termination Order authorized SIHD
25 to remove HCCA as the signatory from any and all bank accounts containing SIHD funds,
26 and instructed SIHD to file a supplemental brief addressing, among other issues, whether
27 the HCCA Management Agreement constituted an executory contract within the meaning
28

1 of 11 U.S.C. §365. On or about November 15, 2017, SIHD filed² a supplemental brief in
2 support of the HCCA Termination Motion. On or about November 22, 2017, SIHD filed a
3 Notice of Settlement resolving the issues raised by and through the HCCA Termination
4 Motion (“HCCA Termination Settlement”). Among other things, the HCCA Termination
5 Settlement provided for the rejection of the HCCA Management Agreement, and set the
6 deadline for HCCA to file a claim as January 31, 2018 (the “HCCA Bar Date”).

7 **F. Relief from Stay**

8 On or about March 29, 2016, J.M.H., II, a minor, moved for relief from stay to
9 proceed with pending litigation relating to alleged medical malpractice and recover any
10 judgment resulting from such litigation from any insurance coverage. Thereafter, SIHD
11 entered into a stipulation to grant J.M.H., II, relief from the automatic stay to proceed with
12 the pending litigation and seek to recover any judgment from any insurance coverage.
13 The Court entered an order approving the stipulation on or about April 15, 2016.

14 On or about June 7, 2016, Everbank filed a motion for relief from the automatic stay
15 in order to record a UCC-3 financing statement indicating the assignment of a security
16 interest in certain medical equipment utilized by the hospital. The motion also requested
17 that the Court set a deadline by which SIHD had to either assume or reject the Everbank
18 Agreement. SIHD opposed the motion and, more specifically, the characterization of the
19 agreement as an unexpired lease or executory contract. The Court ultimately granted in
20 part and denied in part Everbank’s motion and set a deadline for SIHD to assume or reject
21 the Everbank Agreement. As noted above, the Debtor rejected the Everbank Agreement
22 and, thereafter, Everbank and the Debtor entered into the Settlement Agreement.

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28 ² In response to allegations of purported conflict of interest asserted by NCCA against Baker Hostetler,
SIHJ retained Dentons LLP and The Shinbrot Firm as special counsel.

1 **G. Case Administration**

2 **1. Licensure**

3 On or about March 1, 2016, the California Department of Public Health (the
4 “CDPH”) reinstated SIHD’s license to operate the hospital. Following the reinstatement of
5 the license, SIHD commenced operations at the hospital and the associated clinic and
6 skilled nursing facility.

7 **2. Termination of HCCA/Imposition of New Management**

8 Immediately prior to the filing of the Petition, SIHD entered into the HCCA
9 Management Agreement pursuant to which HCCA, among other things, was charged with
10 managing the operations of the Debtor. Following the termination of the HCCA
11 Management Agreement (as further detailed below), the Debtor hired Jerrel Tucker (“Mr.
12 Tucker”) as the new Chief Financial Officer (“CFO”) and Brian Cotter (“Mr. Cotter”) as the
13 new Chief Executive Officer. The Board has recently appointed a new interim CEO who
14 will be working on expanding services in order to increase revenue and, in fact, revenue
15 has already started to increase.

16 **3. Financial Advisory Firm**

17 The Debtor had previously engaged a financial advisory firm, Force10 Partners,
18 LLC, which had assisted and may further assist with the analysis of the data and creation
19 of financial projections in furtherance of the amended plan(s) and disclosure statement(s)
20 which are to be filed.

21 The Debtor is also retaining Hahn Fife & Company LLP, an accounting firm, to
22 develop the final financial projections for the plan.

23 **H. Claims Administration**

24 Pursuant to the Order Granting Motion to Set Claims Bar Date Pursuant to Fed. R.
25 Bankr. P. 3003(c)(3) entered by the Court on or about August 16, 2016, the Court set
26 September 30, 2016 as the deadline by which to file claims.

1. Tulare Regional Medical Center

On or about November 6, 2017, Tulare Regional Medical Center ("TRMC") filed an Administrative Expense Claim in which it asserted it was entitled to an administrative claim in which it asserted a claim in an amount exceeding \$2,500,000 which was entitled to administrative priority (the "TRMC Claim" or the "TRMC Claim Request"). There have been protracted settlement discussions but no resolution of the TRMC Claim Request has yet been reached. On or about July 8, 2019, the Debtor filed an objection to the TRMC Claim Request which has been set for August 28, 2019. The parties will continue to engage in good faith settlement discussions prior to the hearing. As TRMC has already that the TRMC Claim shall be treated as a general unsecured claim, the primary issue remaining to be resolved is the determination of the amount of that claim.

2. Healthcare Conglomerate Associates, LLC

On or about January 30, 2018, HCCA filed a Request For Payment Of Administrative Expense Claim of Healthcare Conglomerate Associates, LLC Arising Out Of Rejection Of Executory Contract (11 U.S.C. §§503(b) and 507(a)(2)) (the "HCCA Administrative Claim Request"), in which HCCA asserted a claim with purported administrative priority in the amount of \$2,524,054.00 for damages arising from the rejection of the HCCA Management Agreement (the "HCCA Claim"). On or about February 23, 2018, SIHD filed an opposition to the HCCA Administrative Claim Request. On or about February 26, 2018, the Court issued a memorandum informing HCCA that it would not take any action with respect to the HCCA Administrative Claim Request unless and until HCCA complied with the notice and hearing requirement set forth in 11 USC §503(b). To date, HCCA has not yet complied with 11 USC §503(b), and has made no effort otherwise to have the matter brought for hearing before the Court, and thus the matter remains unresolved. However, HCCA and Vi (defined below), on the one hand, and the District on the other hand, have agreed to a mediation date of August 15, 2019 (the "HCCA Mediation"), with Judge Newsome as the mediator at which these parties will seek to resolve issues relating to the HCCA Claim and issues related thereto as described

1 in detail below. In the event that the mediation is unsuccessful, the District will file a
2 motion to estimate the HCCA Claim for voting and distribution purposes no later than
3 September 1, 2019, unless the HCCA Mediation has been continued to a date certain that
4 is beyond September 1, 2019.

5 **I. Pending and Prior Litigation**

6 **1. The Anderson, Craneware and Perez Litigation**

7 As of the commencement of the Bankruptcy Case, the Debtor was party to certain
8 lawsuits, including the following: Perez v. Kibler, et al., case no. SICV CV 1457395,
9 pending in the California Superior Court for the County of Inyo (the “Perez Litigation”);
10 Anderson v. Southern Inyo Healthcare District, case no. 30-2015-00817277-CL-CL-CJC
11 (the “Anderson Litigation”); and Craneware, Inc. v. Southern Inyo Healthcare District,
12 15CV04309, pending in the District Court of Johnson County, Kansas (the “Craneware
13 Litigation”).

14 On or about February 1, 2016, the Anderson Litigation was dismissed.

15 On or about March 30, 2016, the Debtor removed the Craneware Litigation to this
16 Court. On or about August 29, 2016, the Court dismissed the Craneware Litigation for
17 failure to prosecute. On or about January 27, 2017, the underlying state court action was
18 dismissed without prejudice.

19 Based on the nature of the Perez Litigation, the Debtor did not remove that action.

20 **2. The California Department of Public Health Litigation**

21 In addition to the actions pending on the petition date, on or about January 13,
22 2016, the Debtor filed a complaint against the CDPH and Karen Smith—thereby
23 commencing the adversary proceeding styled Southern Inyo Healthcare District v.
24 California Department of Public Health, et al., adv. no. 2016-01008 (the “CDPH
25 Adversary”). By and through the CDPH Adversary, the Debtor sought a determination that
26 the suspension or revocation of the Debtor’s hospital licensure violated the automatic
27 stay. Following the reinstatement of SIHD’s licenses, the Debtor and the defendants in the
28 CDPH Adversary reached an agreement to dismiss the CDPH Adversary without

1 prejudice. On or about March 9, 2016, SIHD filed a stipulation to dismiss the CDPH
2 Adversary without prejudice, which the Court approved by order entered on or about
3 March 10, 2016.

4 **3. The Optum Bank Litigation**

5 On or about August 15, 2017, the Debtor filed a complaint seeking to disallow the
6 purported secured claim (the "Optum Claim") asserted by Optum Bank, Inc. ("Optum") and
7 invalidate any and all security interest(s) and set aside any and all liens associated
8 therewith (the "Optum Complaint"). The resulting adversary proceeding is styled Southern
9 Inyo Healthcare District v. Optum Bank, Inc., adv. no. 2017-01077 FEC (the "Optum
10 Adversary").

11 On or about October 27, 2017, Optum filed an answer and counterclaim to the
12 Optum Complaint (the "Counterclaim"). On or about March 20, 2018, the Debtor filed an
13 answer to the Counterclaim (the "Optum Answer"). On or about April 5, 2018, the Court
14 entered an order setting various dates and deadlines related to the Optum Adversary.
15 After completion of comprehensive discovery (both written and depositions) by both the
16 District and Optum, both the District and Optum filed competing motions for summary
17 judgment (the "Optum Summary Judgment Motions") which were heard on May 22, 2019,
18 following which the Court took the matters under submission. Pending on the manner in
19 which the Court rules on the Optum Summary Judgment Motions, the District will either
20 continue to prepare for trial in the Optum Adversary and/or move for enforcement of any
21 judgment thereon.

22 **4. The HCCA/VI Healthcare Litigation**

23 The District retained The Shinbrot Firm to prepare and file a complaint against
24 HCCA and related entities which was done on or about May 30, 2018, and commenced
25 the adversary proceeding styled Southern Inyo Healthcare District v. Healthcare
26 Conglomerate Associates, LLC, et. al. adv. no. 2018-01031 FEC (the "HCCA Complaint")
27 (the "HCCA Adversary"). The HCCA Complaint contained numerous claims for relief
28 against HCCA and a related entity, VI Healthcare Finance, Inc. ("Vi"), and asserted claims

1 including, but not limited to, claims relating to violations of California's False Claims Act,
2 violation of California's Government Code, Breach of Fiduciary Duty and other business
3 torts. On or about June 29, 2018, HCCA and Vi filed their answer to the HCCA Complaint.

4 The parties have from time to time sought to continue the status conference in the
5 HCCA Adversary, and it is currently continued to October 16, 2019. The Court has
6 indicated there will be no further continuances. Amongst other things, the stipulation
7 ensured that the property tax payments have been segregated and shall not be remitted
8 to HCCA pending the outcome.

9 As highlighted above, the parties are working diligently to prepare for the upcoming
10 mediation which the parties are hopeful will resolve not only the issues related to the
11 HCCA Adversary but those relating to the HCCA Claim.

12 All parties have stated that mediation of the HCCA Adversary is appropriate and
13 have discussed potential dates for a multi-party mediation that will resolve a host of
14 issues. The District and the defendants to said adversary have agreed to a mediation
15 date of August 15, 2019 in front of the Honorable Randall J. Newsome as mediator.

16 **5. Avoidance Action Litigation**

17 The result of the five preference actions is as follows. On July 12, 2018, the District
18 filed an adversary proceeding against Healthcare Resource Group, Inc. for recovery of
19 preference payments, commencing adv. no. 18-01043 ("Healthcare Resource
20 Adversary"). On December 19, 2018, the District moved to dismiss the Healthcare
21 Resource Adversary pursuant to a settlement which provided for the payment of
22 \$5,625.00 to the District.

23 On July 12, 2018, the District additionally filed an adversary proceeding against
24 Coast to Coast Healthcare Services, Inc., for recovery of preference payments,
25 commencing adv. no. 18-01044 ("Coast to Coast Adversary"). On October 1, 2018, the
26 District filed a Notice of Withdrawal and dismissed the Cost to Coast Adversary.

27 On July 12, 2018, the District additionally filed an adversary proceeding against
28 Healthland Inc., for recovery of preference payments, commencing adv. no. 18-01045

1 ("Healthland Adversary"). On December 19, 2018, the District moved to dismiss the
2 Healthland Adversary pursuant to a settlement which provided for the dismissal of the
3 Healthland Adversary on the one hand, and the claims asserted by Healthland Inc. shall
4 not be allowed. Although Healthland Inc. had not filed proofs of claim, Healthland's pre-
5 petition claim had been scheduled in the District's Schedule F.

6 On July 12, 2018, the District additionally filed an adversary proceeding against
7 Optum Bank, Inc., for recovery of preference payments, commencing adv. no. 18-01046
8 ("Optum Preference Adversary"). The Optum Preference Adversary is currently pending.

9 On July 12, 2018, the District additionally filed an adversary proceeding against
10 Premier Emergency Physicians of California Medial Group, for recovery of preference
11 payments, commencing adv. no. 18-01046 ("Premier Adversary"). On March 20, 2019, the
12 District filed a Motion to Dismiss the Premier Adversary pursuant to a settlement which
13 provided for the payment of approximately \$55,000 to the District as well as cancellation
14 of a debt/withdrawal of a claim of approximately \$500,000.

15 **6. The District's Claim in the TRMC Bankruptcy Proceeding**

16 The District has also filed a proof of claim in the TRMC chapter 9 bankruptcy case.
17 Such claim has been objected to by TRMC. The District has filed a response to TRMC's
18 objection to claim and has set the matter for hearing.

19 **II. MEDIATION**

20 Except as identified above with respect to the HCCA Adversary and the HCCA
21 Claim, the Debtor is unaware of any matters to be mediated at this time.

22 **III. SECTION 923 NOTICE**

23 On or about February 12, 2016, SIHD filed the Debtor's Motion for Entry of an
24 Order (1) Approving Form of Notice, and (2) Setting Deadline for Filing Objections to
25 Petition. On or about March 15, 2016, the Court entered an order approving the motion
26 and proposed manner in which to provide notice via publication in accordance with 11
27 U.S.C. §923. The Debtor timely completed all publications required under the order.
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1 **IV. PLAN OF READJUSTMENT**

2 On or about January 27, 2017, the Court entered the Order Granting Ex Parte
3 Motion to Continue Deadline to File Plan of Adjustment. Through that order, the Court
4 extended the deadline to file a plan for the adjustment of debts from January 31, 2017
5 through and including March 31, 2017.

6 On or about March 31, 2017, the Debtor filed the Plan for the Adjustment of Debts
7 of Southern Inyo Healthcare District (the "Initial Plan"), the Disclosure Statement with
8 Respect to the Plan for the Adjustment of Debts of Southern Inyo Healthcare District (the
9 "Initial Disclosure Statement"), and other related and supporting documents.

10 Following the hearing on the adequacy of the Initial Disclosure Statement, the
11 Court disapproved the Initial Disclosure Statement in order to enable the Debtor to make
12 certain modifications thereto, including modifications relating to Optum and the Optum
13 Claim. The Court also set the hearing on the adequacy of the amended disclosure
14 statement for August 30, 2017, and directed the Debtor to file its amended plan and
15 disclosure statement.

16 On or about July 20, 2017, the Debtor filed the First Amended Plan for the
17 Adjustment of Debts of Southern Inyo Healthcare District (the "First Amended Plan"), the
18 First Amended Disclosure Statement with Respect to the Plan for the Adjustment of Debts
19 of Southern Inyo Healthcare District (the "First Amended Disclosure Statement"), and
20 other related and supporting documents.

21 After filing the First Amended Plan and the First Amended Disclosure Statement,
22 the Debtor engaged in discussions with several creditors, including Optum, regarding the
23 First Amended Plan and the treatment of certain claims and contracts thereunder. As a
24 result of these discussions, the Debtor was able to resolve certain disputes pertaining to
25 the First Amended Plan and/or the First Amended Disclosure Statement. Among these,
26 the Debtor and Optum reached an agreement in principle through which the Debtor
27 agreed to allow Optum to vote on the Plan despite the disputed status of the Optum
28 Claim.

1 On or about January 17, 2018, the Debtor filed the Second Amended Plan (the
2 "Second Amended Plan") and the Second Amended Disclosure Statement with Respect
3 to the Plan for the Adjustment of Debts of Southern Inyo Healthcare District (the "Second
4 Amended Disclosure Statement"), and other related and supporting documents. Similar to
5 the previous iterations of the plan and disclosure statement, the Second Amended Plan
6 and the Second Amended Disclosure Statement provided for the adjustment of the
7 Debtor's operations and the repayment of its obligations with operational revenues. The
8 Second Amended Disclosure Statement also included additional detail regarding the
9 treatment of the Optum Claim in order to address the objections raised by Optum and
10 comments expressed by the Court with respect to the previous versions of the plan and
11 disclosure statement. On or about February 28, 2018, at the hearing to approve the
12 adequacy of the Second Amended Disclosure Statement, the Debtor withdrew the Second
13 Amended Disclosure Statement given, among other things, the significant change in
14 circumstances that had occurred since the filing thereof.

15 On April 11, 2019, the Court issued the Order to Show Cause Regarding Dismissal
16 ("OSC") [Dkt. 606] which is set for hearing on July 24, 2019. The Debtor timely filed its
17 response, amended response, and declaration of Jacque Hickman on June 10, 11 and 17,
18 2019, respectively (collectively, the "OSC Response"). No parties in interest have filed
19 any pleadings in support of the OSC. As set forth in the OSC Response, the Debtor
20 expects to be in a position to file an amended Plan of Readjustment and Disclosure
21 Statement (the "Amended Plan") in approximately 60 days. New counsel for the District
22 has only been involved in the case for approximately three months, and has been working
23 with the District to finalize an Amended Plan that will not require either further amendment
24 or resolicitation of any disclosure statement that is approved. Such formulation includes
25 but is not limited to securing additional sources of funding and resolving various litigation
26 that will affect the assets available from the Amended Plan and the liabilities to be paid
27 through the Plan. Counsel has additionally been diligently working toward concluding the
28 outstanding litigation that will affect a new Plan of Readjustment. With the conclusion of

1 litigation, and with the influx of additional sources of revenue, a confirmable Plan of
2 Readjustment will be filed shortly.

3 **V. POTENTIAL FUNDING SOURCES**

4 In response to a study conducted by Inyo County regarding health care services
5 needed within the community, the District has identified a number of potential services to
6 be provided which would also serve as additional revenue sources in order to help fund
7 the Amended Plan including but not limited to infusion therapy. The actual revenue likely
8 to be generated on account of such services is currently being evaluated by Hahn Fife in
9 anticipation of including same in the Amended Plan.

10 The District has recently contracted with an interim administrator and the District is
11 confident that his focus on increasing revenue, cross-training employees in order to
12 decrease overtime costs and payroll obligations, the provision of new services and a focus
13 on a positive public relations message will provide renewed confidence in the view of both
14 the creditors and the community.

15 The District proposed an increase in the parcel tax which was put on the ballot in
16 2018. Although the voting was 57% in favor and 43% against, the measure did not pass
17 as it required two thirds (2/3) approval. Give the progress since then with respect to both
18 the bankruptcy and operations, the District is confident that a similar measure is more
19 likely to be approved and is currently evaluating whether to include a similar measure on
20 the upcoming ballot.

21 The District continues to engage in discussions for potential funding from the Los
22 Angeles Department of Water and Power ("LADWP") as LADWP is the largest employer
23 in Southern Inyo. LADWP has a vested interest in ensuring that its employees continue to
24 have access to vital health care services and to this end is considering whether certain
25 funds can be allocated for this purpose.

26 The District is evaluating whether to participate in a grant program, likely to be
27 available in the fall of 2019, which is offered by the Great Basin Pollution Control District
28 which will provide grants to entities that implement capital improvements aimed at

1 reducing pollution and improving air quality, such as new generator, roofing, HVAC
2 systems, and patient transportation van. This grant program is expected to be available in
3 the fall of 2019. Having these much needed facility improvements secured through grant
4 funding allows increase revenues to be used for operations.

5 The District continues to evaluate all potential sources of revenue and the District
6 CFO continues to work aggressively to ensure that expenses are minimized and revenues
7 are maximized. Amongst other things, the CFO is investing in the Local Agency
8 Investment Fund (LAIF), a fund which enables districts such as the District to invest using
9 the expertise of the State Treasurer and at no additional expense to the taxpayer. In the
10 last fiscal year approximately \$370,000 was invested in the LAIF and the CFO projects
11 that approximately \$250,000 will be invested in the LAIF in the current fiscal year.

12 The District's participation with respect to supplemental funding opportunities and
13 programs, including but not limited to, intergovernmental transfers and the PRIME
14 program, continues to increase. As intergovernmental transfers ("IGT") require the District
15 to advance public funds in order to receive a 2-1 return on those funds, the District has
16 developed a positive relationship with the Inyo County Treasury Funds Committee which
17 has advanced to the District funds on a short-term basis in order to enable the District to
18 participate in these programs. In fact, to this end, at the Board meeting on June 18, 2019,
19 the Board approved Amended Resolution 19-6 which allows the District to borrow up to \$1
20 million, as needed, for funds to be utilized for IGT funding for the fiscal year of July 1,
21 2019 to June 30, 2020.

22 **VI. CONCLUSION**

23 The community-at-large (a number of which are creditors of the Debtor) continues
24 to support the efforts of the Debtor to provide quality healthcare to the surrounding
25 population. Not only is it the only hospital in a 135 mile stretch of Highway 395, it also
26 provides exceptional skilled nursing care for as many as 33 residents. In addition to the
27 invaluable health and safety benefits provided by the Debtor, the Debtor also employs
28 over ninety (90) people who would be unemployed if SIHD was forced to close its doors.

Given the significant improvement in the financial condition of the Debtor that has occurred since the termination of the HCCA Management Agreement, and the myriad options being diligently explored, the Debtor is confident that it will not only be able to satisfy its obligations under the Amended Plan to be filed, but that it will be able to continue to provide and improve the level of healthcare so desperately needed by Southern Inyo and the surrounding communities.

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